



Financial Statements  
December 31, 2010

# Northeast Council of Governments

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

The Board of Directors  
Northeast Council of Governments  
Aberdeen, South Dakota

We have audited the accompanying financial statements of the Northeast Council of Governments as of and for the year ended December 31, 2010, which collectively comprise Northeast Council of Governments's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Northeast Council of Governments's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Council of Governments as of December 31, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2011, on our consideration of the Northeast Council of Governments's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota  
November 3, 2011

This section of the financial report represents management's discussion and analysis of the Northeast Council of Governments's (NECOG) financial performance during the year ended December 31, 2010. This report is presented to provide additional information about NECOG and to meet the requirements of GASB 34. This analysis should be read in conjunction with the independent auditor's report, financial statements, and the notes to the financial statements.

### **Nature of Operations for the Organization**

NECOG is a governmental entity; the boundaries, counties, and cities included were established under Executive Order 70-7 by the State of South Dakota's governor's office. NECOG currently serves twelve counties in the Aberdeen, South Dakota area (northeastern South Dakota), initiating, guiding, and providing strategic planning within the area it serves. The primary objective of NECOG is to provide specific planning for rural economic development through projects to enhance the economic environment and improve or maintain the quality of life in the area it serves.

### **Financial Statements**

The financial statements used by NECOG include a statement of net assets (similar to a balance sheet). The statement of net assets reports all financial and capital assets for NECOG. The statement is presented in a format where assets equal liabilities plus net assets, formerly known as equity. Assets and liabilities are presented in order of liquidity. Current assets are those that are convertible to cash within one year.

The financial statements also include a statement of revenues, expenses and changes in net assets (similar to an income statement). This statement includes revenues; such as federal grants, administrative fees, contract and local revenues and interest income and expenses; such as payroll related costs, professional fees and other. The focus of the statement of revenues, expenses and changes in net assets is to show the change in net assets.

A statement of cash flows is also included, which discloses net cash from or used by operating activities, nonoperating grants received, investments in capital assets and other investing activities.

The notes to the financial statements provide additional information essential to understanding the financial statements.

### Statement of Net Assets

The following table reflects the condensed statement of net assets compared to the prior year:

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 118,666	\$ 89,454
Certificates of deposit	1,446,384	1,237,740
Accounts receivable	128,806	117,519
Due from NECOG Development Corporation	7,568	11,276
Accrued interest receivable	18,058	23,625
Prepaid expenses	3,453	4,009
<b>Total current assets</b>	<u>1,722,935</u>	<u>1,483,623</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>34,921</u>	<u>11,446</u>
<b>Total Assets</b>	<u><u>\$ 1,757,856</u></u>	<u><u>\$ 1,495,069</u></u>
<b>Liabilities</b>		
Accounts payable	\$ 34,185	\$ 8,559
Accrued annual leave	14,497	14,181
Unearned revenue	219,894	105,880
<b>Total current liabilities</b>	<u>268,576</u>	<u>128,620</u>
<b>Net Assets</b>		
Invested in capital assets	34,921	11,446
Net assets - unrestricted	1,454,359	1,355,003
<b>Total net assets</b>	<u>1,489,280</u>	<u>1,366,449</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 1,757,856</u></u>	<u><u>\$ 1,495,069</u></u>

### Major Factors Affecting the Statement of Net Assets

Current assets increased by \$239,312. This increase is primarily due to the increase in certificates of deposits as additional money was invested.

Total liabilities increased \$139,956. This is due primarily to an increase in unearned revenue related to an increase of projects in 2010.

Total liabilities and net assets increased \$262,787, which was primarily related to the increase in unearned revenues and the increase in certificates of deposit.

**Statement of Revenues, Expenses and Changes in Net Assets**

The following table compares the revenues and expenses for the current and previous fiscal years:

**Table 2**

	2010	2009	% Change
<b>Revenues</b>			
Federal grants and funding revenues	\$ 174,469	\$ 237,648	-27%
Contract revenues	206,021	176,915	16%
Local revenues	128,145	126,065	2%
Private foundation funds	-	3,900	-100%
NECOG Development Corporation administrative fees	74,282	75,816	-2%
Interest income	33,545	36,448	-8%
Other operating revenues	1,053	2,407	-56%
<b>Total revenues</b>	<b>617,515</b>	<b>659,199</b>	<b>-6%</b>
<b>Expenses</b>			
Salaries	267,120	253,166	6%
Payroll taxes and benefits	60,100	58,985	2%
Staff travel	18,124	11,784	54%
Directors fees and travel	1,405	1,210	16%
Insurance	6,572	7,900	-17%
Professional fees	85,219	132,059	-35%
Office rent	20,268	20,268	0%
Equipment rental and maintenance contracts	4,241	4,691	-10%
Expendable equipment purchases	6,771	7,542	-10%
Utilities and telecommunications	6,526	6,604	-1%
Membership and conference registration	5,569	5,070	10%
Office expenses	6,195	10,869	-43%
Depreciation expense	4,492	1,543	191%
Loss on sale of assets	100	-	0%
Miscellaneous expense	1,982	3,808	-48%
<b>Total expenses</b>	<b>494,684</b>	<b>525,499</b>	<b>-6%</b>
<b>Increase in Net Assets</b>	<b>122,831</b>	<b>133,700</b>	<b>-8%</b>
<b>Net Assets - Beginning</b>	<b>1,366,449</b>	<b>1,232,749</b>	
<b>Net Assets - Ending</b>	<b>\$ 1,489,280</b>	<b>\$ 1,366,449</b>	

### **Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Assets**

Contract income increased \$29,106 (16%), largely due to an increase in infrastructure projects in the region still in progress due to the Federal ARRA funds. Private foundation funds decreased \$3,900 (100%) as the funds were expended and earned the prior year. Federal grants and funding revenue decreased \$63,179 (27%) due to a decrease in the DOJ grant activity. Total expenses decreased \$30,815 (6%), mostly due to a decrease in professional fees of \$46,840 because of a decrease in the DOJ grant activity.

Net assets at the beginning of the year was \$1,366,449 and at the end of the year was \$1,489,280 (including invested in capital assets), resulting in an increase in net assets (net income) of \$122,831.

### **Capital Asset and Debt Administration**

Capital Assets – During 2010, NECOG invested \$28,067 in their capital assets for leasehold improvements to their office space.

Debt Outstanding – NECOG had no debt outstanding in 2010 or 2009.

### **Currently Known Facts, Decisions or Conditions**

NECOG has made a commitment to the NECOG Development Corporation to provide matching funds up to \$187,500 as they make qualifying loans under their Intermediary Relending Program beginning in 2011.

### **Financial Contact**

If you have any questions about this report or need additional financial information, contact the Northeast Council of Governments Accountant at (605) 626-2595 or by writing to Northeast Council of Governments, 2201 6<sup>th</sup> Avenue SE, Suite 2, PO Box 1985, Aberdeen, SD 57402-1985.

Northeast Council of Governments  
Statement of Net Assets  
December 31, 2010

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Assets

Current Assets

Cash and cash equivalents	\$ 118,666
Certificates of deposit	1,446,384
Accounts receivable	92,795
Grants receivable from other governments	36,011
Due from NECOG Development Corporation	7,568
Accrued interest receivable	18,058
Prepaid expenses	3,453

Total current assets	<u>1,722,935</u>
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Noncurrent Assets

Capital assets, at cost:

Automobiles	46,250
Leasehold improvements	36,787
Office equipment	31,624

114,661

Less accumulated depreciation	<u>(79,740)</u>
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Total noncurrent assets	<u>34,921</u>
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Total Assets	<u><u>\$ 1,757,856</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 34,185
Accrued annual leave	14,497
Unearned revenue	219,894

Total current liabilities	<u>268,576</u>
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Net Assets

Invested in capital assets	34,921
Unrestricted net assets	1,454,359

Total net assets	<u>1,489,280</u>
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Total Liabilities and Net Assets	<u><u>\$ 1,757,856</u></u>
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Northeast Council of Governments  
Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended December 31, 2010

Operating Revenues	
Contract revenues	\$ 206,021
Federal grant and funding revenues	101,219
Local revenues and support	128,145
NECOG Development Corporation administrative fees	74,282
Other operating revenues	<u>1,053</u>
Total revenues	<u>510,720</u>
Operating Expenses	
Salaries	267,120
Payroll taxes	20,435
Employee benefits	39,665
Staff vehicle expense	6,151
Travel	11,972
Directors fees and travel	1,405
Insurance	6,572
Professional fees	85,234
Office rent	20,268
Equipment rentals	629
Office supplies	6,771
Maintenance contracts	3,612
Utilities and telecommunications	6,526
Memberships and conferences	5,569
Postage	2,733
Subscriptions and publications	3,462
Depreciation expense	4,492
Miscellaneous and other expenses	<u>1,968</u>
Total operating expenses	<u>494,584</u>
Operating Income	<u>16,136</u>
Nonoperating Revenue (Expense)	
Grant income	73,250
Interest income	33,545
Loss on sale of assets	<u>(100)</u>
Total nonoperating revenue (expense)	<u>106,695</u>
Change in Net Assets	122,831
Net Assets, Beginning of Year	<u>1,366,449</u>
Net Assets, End of Year	<u><u>\$ 1,489,280</u></u>

## Northeast Council of Governments

## Statement of Cash Flows

Year Ended December 31, 2010

Cash Flows from Operating Activities	
Receipts from customers	\$ 418,205
Receipts from grants and federal funding	75,583
Receipts from local revenues and support	124,814
Payments to suppliers and others	(157,125)
Payments to employees	(306,469)
Other receipts	1,053
	<u>156,061</u>
Net Cash from Operating Activities	
Cash Flows from Noncapital Financing Activities	
Nonoperating grants received	70,750
	<u>70,750</u>
Net Cash from Noncapital Financing Activities	
Cash Flows used by Capital and Related Financing Activities	
Purchase of capital asset	(28,067)
	<u>(28,067)</u>
Net Cash used by Capital and Related Financing Activities	
Cash Flows used by Investing Activities	
Redemption of certificates of deposit	551,172
Purchase of certificates of deposit	(759,816)
Interest received	39,112
	<u>(169,532)</u>
Net Cash used by Investing Activities	
Net Change in Cash and Cash Equivalents	29,212
Cash and Cash Equivalents - Beginning	89,454
	<u>89,454</u>
Cash and Cash Equivalents - Ending	<u>\$ 118,666</u>
Reconciliation of Operating Income to	
Net Cash from (used by) Operating Activities	
Operating loss	\$ 16,136
Adjustments to reconcile operating loss to:	
Depreciation	4,492
Change in assets and liabilities:	
Accounts receivable	(8,787)
Due from NECOG Development Corporation	3,708
Prepaid expenses	556
Accounts payable	25,626
Accrued annual leave	316
Unearned revenue	114,014
	<u>156,061</u>
Net Cash from Operating Activities	<u>\$ 156,061</u>

## **Note 1 - Nature of Operations and Significant Accounting Policies**

The accounting policies of the Northeast Council of Governments (NECOG) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant policies.

### **Reporting Entity**

NECOG is a governmental entity; the boundaries, counties, and cities included were established under Executive Order 70-7 by the State of South Dakota's governor's office. NECOG currently serves twelve counties in the Aberdeen, South Dakota area (northeastern South Dakota), initiating, guiding, and providing strategic planning within the area it serves. The primary objective of NECOG is to provide specific planning for rural economic development through projects to enhance the economic environment and improve or maintain the quality of life in the area it serves.

The staff of NECOG provides technical and professional assistance to member units of government in writing grant proposals, comprehensive planning, analyzing local resources, and similar assistance. The financial statements presented in this report represent all the funds and fiscal activities under the control of the Board of Directors, through a five member Executive Board elected from the full board of NECOG. NECOG is governed by a board consisting of county commissioners, city officials, and private citizens. Control is determined by oversight, legal responsibilities, and financial accountability.

The accompanying financial statements have been prepared from records pertaining to and including all the funds, operations, activities, and financial affairs of NECOG.

### **Basis of Accounting and Financial Statement Presentation**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting; revenues are recognized when earned and expenses are recognized when incurred.

The accounts are organized on the basis of funds. During 2010, all activities were accounted for through the general fund, there were no separate special purpose funds in 2010. The operations of the general fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. For 2010, NECOG's funds are grouped into one broad fund category and fund type as follows.

### **Proprietary Funds**

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The General Operating Fund was the only enterprise fund maintained by NECOG for 2010. It is the only major fund for financial reporting purposes.

Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989 generally are followed in the financial statements to the extent that those standards do not conflict with or contradict pronouncements of the Governmental Accounting Standards Board. NECOG does not follow FASB Statements and Interpretations issued after November 30, 1989.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of NECOG's general fund are contract revenues from the administering of grant programs on the behalf of other governmental entities and annual dues received from its member cities and counties. Operating expenses for the fund includes all administrative costs of the entity and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is NECOG's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Cash and Cash Equivalents**

For purpose of the statement of cash flows, NECOG considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents; all cash accounts and unrestricted temporary cash investments at the financial statement reporting date were considered to be cash equivalents in the accompanying statement of net assets.

### **Accounts Receivable, Unearned Revenue and the Recognition of Revenue**

Resources from grants are recorded as revenue, when the related costs are incurred using the percentage of completion method, measured by the ratio that costs incurred bears to total estimated costs. Adjustments to cost estimates are made periodically. If the funding received under a grant is less than the revenue earned, based on matching requirements and costs incurred, the revenue is accrued (recorded as revenue) and presented as an account receivable in the accompanying financial statements. If funding received under a grants exceeds the revenue earned, based on costs incurred, the revenue is deferred (not recognized as revenue until such time in the future when earned) and presented as unearned revenue in the accompanying financial statements.

Local funding provided by member counties and cities is recorded as revenues of the year to which the funding commitment is related. These revenues are applied as local funding match to individual grants on the basis of total expenditures of the grant in the cost sharing ratio specified in the grant agreement.

Federal funding is recorded as revenues by individual grant for the federal share of costs incurred to date determined by the cost-sharing ratio specified in the grant agreement or contract. If the funding received for a grant is less than the revenue earned, based on cost-sharing ratio, the revenue is accrued (the accrual is recorded as revenue) and presented as a receivable in the accompanying financial statements. If the funding received for a grant exceeds the revenue earned, based on cost-sharing ratio, the revenue is deferred (not recognized as revenue and deferred) and presented as unearned revenue in the accompanying financial statements.

### **Indirect Cost System**

Indirect costs are applied or allocated to individual grants based upon a fixed ratio or percent of direct salaries, payroll taxes, and employee benefits charged to a grant. This rate is reviewed annually and revised as necessary in an attempt to minimize over- or under-applied indirect costs. The resulting over- or under-applied indirect costs for year end are charged or credited, as appropriate, are carried forward to the next year's indirect cost allocation.

The indirect costs system has previously been approved by the U.S. Department of Justice and is operated in accordance with guidelines established by OMB Circular A-87, Cost Principles for State and Local Governments. The indirect cost rate for 2010 was 40% of direct salaries, payroll taxes, and employee benefits.

### **Capital Assets and Depreciation**

Capital assets include vehicles, leasehold improvements, office and computer equipment, and software and are recorded at cost and depreciated over their estimated useful lives. NECOG uses a capital asset capitalization policy of \$5,000; items costing less than this amount (individually) are charged as expense to current year operations, as expendable equipment or supplies. Major renewals and betterments are capitalized in the capital asset accounts and depreciated; while replacements, maintenance, and repairs, which do not improve or extend the lives of respective assets are charged to current year operations as repairs and maintenance expense. Depreciation is computed on the straight-line method using estimated useful lives of three to five years.

### **Accrued Annual Leave and Employee Benefits**

The cost of compensated leave and employee benefits are accrued as they are vested to the employee.

### **Self-Insurance – Unemployment Benefits**

NECOG is under the self-insurance method for paying unemployment claims. Under this method, NECOG pays unemployment benefit claims to the State system as they are billed rather than contributing to the State system. Costs resulting from claims are charged to income as expenses when incurred. There were no unemployment benefit costs during 2010.

### **Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

### **Income Taxes**

NECOG is a governmental entity exempt from federal income taxes; therefore, no provision for income taxes has been presented in the accompanying financial statements. The State of South Dakota does not have an income tax.

### **Note 2 - Deposits and Investments**

NECOG's deposits are made and held in qualified public depositories. In South Dakota, qualified depositories are required by SDCL 4-6A to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

NECOG maintains its cash balances, savings accounts, and certificates of deposit at financial institutions in the general local area. The cash balances are held in institutions insured by the FDIC or NCUA. All cash balances, including interest earned, where applicable, have market values at December 31, 2010 that are substantially the same as the carrying value in the accompanying financial statements. Deposits are reported at cost plus interest, if the account is of the add-on type.

**Custodial Credit Risk Deposits:** The risk that, in the event of a bank failure, NECOG's deposits may not be returned. NECOG does not have a formal deposit policy for the custodial credit risk, but maintains its cash accounts in several commercial bank deposit accounts to help lower this risk. NECOG believes it is not exposed to any significant credit risk on cash and cash equivalents and NECOG has not experienced any losses on such accounts.

The actual bank balances of NECOG were as follows:

	<u>Bank Balance</u>
Insured (FDIC)	\$ 1,571,663
Uninsured	<u>-</u>
Total deposits	<u>\$ 1,571,663</u>
NECOG's carrying amount of deposits at December 31	<u>\$ 1,565,050</u>

### Note 3 - Capital Assets

A summary of changes in capital assets for the year ended December 31, 2010 is as follows:

	<u>Balance 01/01/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/10</u>
<b>Cost</b>				
Automobiles	\$ 46,250	\$ -	\$ -	\$ 46,250
Leasehold improvements	8,720	28,067	-	36,787
Office equipment	36,027	-	4,403	31,624
Computer equipment and software	3,877	-	3,877	-
	<u>\$ 94,874</u>	<u>\$ 28,067</u>	<u>\$ 8,280</u>	<u>\$ 114,661</u>
<b>Accumulated Depreciation</b>				
Automobiles	\$ 45,857	\$ 393	\$ -	\$ 46,250
Leasehold improvements	8,720	1,871	-	10,591
Office equipment	24,974	2,228	4,303	22,899
Computer equipment and software	3,877	-	3,877	-
	<u>\$ 83,428</u>	<u>\$ 4,492</u>	<u>\$ 8,180</u>	<u>\$ 79,740</u>

The provision reported above of \$4,492 is the depreciation expense charged to current year operations. NECOG had no construction commitments as of December 31, 2010.

**Note 4 - Retirement Plan**

Employees of NECOG participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. Cost allocations of retirement benefits, as with other employee benefits, are allocated to specific projects, programs, and grants based on payroll cost allocations. NECOG's share of contributions made to the SDRS for the years ended December 31, 2010, 2009, and 2008 were \$15,523, \$14,812, and \$13,344, respectively.

**Note 5 - Operating Lease - Lease Commitment**

NECOG leases its office facilities. The lease agreement is for monthly rentals of \$1,689 per month, through the end of May 2015. The total rent for the year ending December 31, 2010 was \$20,268.

Future minimum lease payments for the remaining lease terms are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2011	\$ 20,268
2012	20,268
2013	20,268
2014	20,268
2015	8,445
	<u>\$ 89,517</u>

**Note 6 - Related Party Transactions**

In January 1995, NECOG spun off the Revolving Loan Fund, forming a new separate corporation, under Internal Revenue Code Section 501 (c)(3). The new corporation is NECOG Development Corporation (Development Corporation) and it issues its own separate annual financial report.

NECOG charges an administrative fee for the services it provides and expenses incurred for the Development Corporation. NECOG shares its offices with the Development Corporation; however, the Development Corporation is not a component unit of NECOG.

NECOG provides services and office space to the Development Corporation. During the year 2010, NECOG charged the Development Corporation administrative fees totaling \$80,696. NECOG also had a receivable from the Development Corporation totaling \$7,568 as of December 31, 2010.

**Note 7 - Risk Management**

Liability and casualty insurance are carried for risks of loss related to torts, theft, or damage to property; and errors and omissions of public officials through a commercial insurance carrier. All employees of NECOG are also covered by workers compensation insurance. NECOG reviews insurance coverage annually to determine if any additions or revisions need to be made for future years.

**Note 8 - Concentration**

NECOG receives a substantial amount of its revenues or support from federal, state, and local governments. A reduction in the level of funding or this support, if it were to occur, may have a significant negative impact on NECOG's operations and activities.

**Note 9 - Commitments**

NECOG has made a commitment to the NECOG Development Corporation to provide matching funds as the Development Corporation makes qualifying loans under their Intermediary Relending Program in an amount up to \$187,500 beginning in 2011. Funds drawn down by the Development Corporation as of November totaled \$401,200 with the match provided by NECOG totaling \$100,300.



**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The Board of Directors  
Northeast Council of Governments  
Aberdeen, South Dakota

We have audited the accompanying financial statements of Northeast Council of Governments as of December 31, 2010 and for the year then ended, which collectively comprise the Northeast Council of Governments's basic financial statements and have issued our report thereon dated November 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Northeast Council of Governments's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Northeast Council of Governments's internal control over financial reporting. Accordingly, we do not express such an opinion on the effectiveness of Northeast Council of Governments's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying auditor's comments, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying auditor's comments as item 2010-1 to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Council of Governments's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northeast Council of Governments's response to the finding identified in our audit is described in the accompanying auditor's comments. We did not audit Northeast Council of Governments' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the South Dakota Department of Legislative Audit, Board of Directors and management of the Northeast Council of Governments, others within the entity, and federal awarding and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota  
November 3, 2011

## **Prior Audit Findings**

There were no findings relating to the financial statements which are required to be reported in accordance with generally accepted government auditing standards.

## **Current Audit Findings and Recommendations**

### **Finding 2010-1 Preparation of Financial Statements, Footnotes, and Journal Entries**

#### **Material Weakness**

Condition: Northeast Council of Governments requested the external auditors to prepare the financial statements, and related footnotes and disclosures for the year ended December 31, 2010. As a part of the financial statement preparation process, at times, the auditors propose audit adjustments that are not identified as a result of NECOG's existing internal controls and; therefore, could result in a material misstatement of the NECOG's financial statements.

Criteria: NECOG's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited, in accordance with generally accepted accounting principles.

Cause: NECOG does not have adequate staff trained to prepare financial statements and the related footnotes in accordance with generally accepted accounting principles, which could cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect NECOG's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed, especially for transaction types infrequent in occurrence.

Management Response: Management will review for propriety the draft financial statements and footnotes prepared by the auditor and review all recommended audit adjusting entries proposed by the auditor. Due to NECOG's size, management accepts the risk associated with preparation of the final audited financial statements by the independent auditor.